ED212 sub 11

Queensland Government

Department of
Education and Training

Mr K Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Mr Stevenson

***AASB ED 212 Not-for-Profit Entities within the General Government Sector***

Thank you for the opportunity to respond to the Australian Accounting Standards Board's exposure draft ED 212 Not-for-Profit Entities within the General Government Sector.

The Department of Education and Training (QLD) does not support the proposals as outlined in ED 212 on the basis that:

- there are no broad range of users that would benefit from financial statements in the Government Finance Statistics (GFS) format;
- the costs of implementing GAAPS/GFS harmonisation will divert vital resources from front-line service delivery;
- there are no quantifiable benefits of implementing ED 212; and
- inclusion of budgetary information in financial statements would duplicate existing reporting frameworks.

As advised in the Exposure Draft the Department has included a response to each of the Specific Matters for Comment in the exposure draft in the attachment to this letter.

Any queries in regards to the Department's response should be directed to Mr Nick Shaw, Executive Director, Budget and Financial Reporting Branch on (07) 3234 1833 or via email to nick.shaw@deta.qld.gov.au

Yours sincerely

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***(a) whether the proposals would lead to an overall improvement in general purpose financial reporting by not-for-profit entities within the GGS.***

The Department believes that there is insufficient evidence that proposals identified in ED 212 would increase the usefulness of financial statements to end users that would justify the restatement of financial statements or inclusion of additional disclosure notes.

As acknowledged in the exposure draft release "GFS focuses on providing information for assessment of the macro-economic impact of a government and each of the government's sectors". Users of GFS would generally not be interested in issues of a microeconomic nature, hence there would be no benefit in restatement of the Department's financial statements in a GFS format.

Increasing the level of disclosure in the financial statements will introduce further complexity in the presentation of general purpose financial statements thereby confusing end-users of those financial statements. This would be contrary to the overall aim of ensuring financial statements are easily understood by end-users.

The inclusion of budget information in the Department's financial statements for the first time would appear to have limited benefit to end-users. The Department currently includes estimated actuals in its annual Service Delivery Statements (SDS) as a part of the State Budget papers issued each year and in its annual report, with both documents including reasons for variance to budget. Including this detail in the Financial Statements will add additional overhead for an activity already performed.

A second issue is the relevance to end-users of the budget information and the detraction from actual results. Reporting against budget is only one dimension of an overall performance reporting framework which would also include non-financial information. Reporting against an original budget (which maybe more than 12 months old) or even a more recent budget would be irrelevant to end-users of the information without understanding the full picture. The Department believes the current reporting frameworks and annual report satisfies these requirements.

***Irrespective of your response to this general question, the AASB would value specific comments on:***
***(i) the proposal to limit the entities affected by the proposals in this Exposure Draft to not-for-profit entities within the GGS. In particular, the Board seeks comment on whether the proposals should also apply to for-profit entities within the GGS (see paragraphs 2 and BC10-BC13).***

The Department supports the exclusion of for-profit entities within the GGS as outlined in BC11 ED212.

***(ii) the proposal that the version of the ABS GFS Manual to be applied is a version that was effective at the beginning of the previous annual reporting period or any version effective at a later date, rather than necessarily the latest version (see paragraphs 9 and BC14-BC15).***

The Department supports this proposal which will ensure sufficient time is available to implement any required changes.

***(iii) the proposal to limit GAAP recognition and measurement options to those that align with GFS and thereby require the same accounting policies as those adopted under AASB 1049 for whole of governments and the GGSs (see paragraphs 10-12 and BC16-BC25).***

The Department supports this proposal to ensure greater consistency between GFS and GAAP reporting.

***(iv) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, either in the financial statements or in the notes, of information based on GAAP/GFS harmonised classification and presentation principles for controlled items and, separately, administered items (including classification of income and expenses as transactions and other economic flows, and classification and presentation of cash flows from investing activities for policy purposes and liquidity management purposes) (see paragraphs 13-18, 22 and BC26-BC35).***

As indicated the earlier the Department does not support the proposals for the following reasons:

- The Department is unaware of any evidence to support that the change will be beneficial to its end users of its Financial Statements
- Increasing the level of disclosure in the financial statements will introduce further complexity in the presentation of general purpose financial statements thereby confusing end-users of those financial statements. This would be contrary to the overall aim of ensuring financial statements are easily understood by end-users.
- The cost of implementation would far exceed the actual benefits (which remain unquantified) and divert vital resources from front-line service delivery.

***In relation to this proposal, the Board is particularly interested in comments on:***

***A. whether the on-the-face or in-the-notes presentation option should be allowed and, if not, whether on-the-face presentation of GAAP/GFS harmonised information should be prohibited given the potential for complexity***

The Department would support the prohibition of on-the-face presentation of GAAP/GFS harmonised information to ensure the readability of the Financial Statements and to reduce the level of complexity introduced.

***B. the proposal to require disclosure of GAAP/GFS harmonised classification information at line item level, where it is presented in the notes; and whether information at the line item level would be more beneficial than at the GFS category level.***

Further information and/or examples would be required to assess this issue.

***(v) the proposal to require AASB 1050 to continue to apply to government departments, to the extent its requirements are not satisfied by the proposals in this Exposure Draft (see paragraphs 19 and BC29-BC31).***

The Department currently complies with AASB 1050 Administered Items and would support this proposal.

***(vi) the proposal to require disclosure, under both Tier 1 and Tier 2 requirements, of any original budgeted financial statements reflecting controlled or administered items presented to parliament, recast to align with the presentation and classification adopted in the primary financial statements and accompanying information about administered items or the GAAP/GFS harmonisation note (whichever is judged to be the more useful) and an explanation of variances (see paragraphs 23-29 and BC40-BC42).***

As indicated earlier the Department does not support the inclusion in the Financial Statements of budgetary data. The Department already disclosures financial performance against budget in a number of existing documents including the State Budget papers and the Department's Annual Report. This requirement would duplicate existing reporting frameworks and add an unnecessary overhead and cost to both preparers and auditors.

***(vii) the proposals relating to other disclosures, from both a Tier 1 and Tier 2 perspective (see paragraphs 30-32), in particular relating to:***

***A. requiring information to be disclosed in the accounting policy note (paragraph BC36), including disclosures about the version of the ABS GFS Manual adopted and, where relevant, a later version (paragraph BC15).***

The Department would support this proposal.

***B. not requiring disclosure of disaggregated information, except to the extent it continues to be required by AASB 1052 for government departments (paragraphs BC37-BC39);***

The Department would support this proposal.

***(viii) the proposal to provide no specific transitional requirements, except to require an entity to change the elections it previously made under AASB 1 to the extent necessary to comply with the ABS GFS Manual (see paragraphs 33-35 and BC44-BC47).***

The Department would support this proposal.

***(ix) unless already provided in response to other specific matters for comment relating to disclosures, the proposal to exempt entities adopting Tier 2 requirements from certain disclosures (shown as shaded text in this Exposure Draft);***

The Department would support this proposal.

***(x) the illustrative examples, and whether they provide guidance that is appropriate/helpful in implementing the proposals (see Illustrative Examples A and B and paragraphs BC49-BC50).***

The examples provided illustrate the level of complexity being introduced in the Financial Statements and the difficulties end users will have in interpreting these changes. It would also be useful to include the alternative approach whereby information would be included in the disclosure notes.

***(xi) the proposed operative date (see paragraphs 3-4 and BC48).***

The Department supports an operative date that is at least three years after the issue of the standard.

***(b) unless already provided in response to specific matter for comment (a) above, whether overall, from both a Tier 1 and Tier 2 perspective, the proposals would result in financial statements that would be useful to users.***

As outlined in the submission the Department substantively opposes the introduction of ED 212 on the basis that:

- The requirements and users of GFS which are macroeconomic in nature are significantly different than users of localised reporting information
- The introduction of the Standard would introduce a level of complexity and reduce readability for end users of the Department's Financial Statements
- The cost of implementation on end users would be quite exorbitant, resulting in redirection of resources from front-line activity
- There is no evidence as to the benefit of the introduction of the Standard included in the Exposure Draft.
- The introduction of the Standard should be subject to a proper cost benefit assessment.
- The introduction of budgeted data and variance reporting duplicates existing reporting frameworks.

***(c) whether the proposals, from both a Tier 1 and Tier 2 perspective, are in the best interests of the Australian economy.***

The Department believes that the proposals are not in the best interests of the Australian economy due to the significant cost of implementation with no empirical evidence to support such proposals.

***(d) unless already provided in response to the specific matters for comment above, the costs and benefits of the proposals relating to both Tier 1 and Tier 2 requirements relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.***

As outlined the Department believes there is little merit in the introduction of the proposed Standard. The cost of implementation for the Department is estimated to be $0.4 million and ongoing costs of $0.2 million per annum, which applied on a Government wide basis would be quite significant. There appears to be little justification provided in the Exposure Draft that would warrant redirection of funding from front-line service delivery.